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INDUSTRIAL DEVELOPMENT FUND

Estimated resource level and programme for 1995 and 1996

Report by the Director-General

Summary

Reviews the current pledging pattern of the Industrial Development Fund and describes the Secretariat's approaches for the programming thrust for 1995 and 1996 that give particular emphasis to the priorities for reform approved by the General Conference in resolution GC.5/Res.18.

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Introduction

1. The Industrial Development Fund (IDF) is a key financial mechanism, anchored in the UNIDO Constitution, to enable the Organization to fulfil its mandate of promoting and accelerating the industrial development of developing countries in order to assist them in their efforts to achieve sustainable development and introduce an equitable economic and social order.

2. The present report covers IDF as well as other voluntary contributions provided by donor Governments as third-party trust funds, which are identical in nature to those provided under IDF.

I. ESTIMATED RESOURCE LEVEL

3. In 1993 IDF received $34.2 million in conditional and firm pledges compared with $30.3 million in 1992 and $28.9 million in 1991. In addition, third-party trust fund contributions by donor Governments were provided in the amount of $2.4 million. (For more details see the Annual Report of UNIDO, 1993, chap. III, paras. 90-101, and chap. VIII, paras. 16-20.)

4. A closer analysis of the IDF and third-party trust fund resource base shows that recent developments should be taken into due consideration while estimating the IDF resource level for the forthcoming biennium. Pledges provided by the traditional major donor Governments, which represent the core resource base of IDF, decreased to $21.2 million as compared with $24 million in 1992. The Secretariat was able to counterbalance the decrease by concluding successful project-related negotiations with other donor Governments for an amount of $3.6 million and by obtaining additional contributions from two multilateral sources: the Montreal Protocol for an amount of $6.9 million and the United Nations International Drug Control Programme for an amount of $2.5 million. These additional contributions indicate a recognition of UNIDO's technical specialized expertise as well as the existence of a good potential for complementary activities within the United Nations system. The impact of IDF could nevertheless be enhanced if pledged contributions were to increase and if the general-convertible segment of the Fund amounted to more than the minimal level of approximately $1 million achieved in recent years. The Fund could then be used more effectively for the implementation of a uniform programming policy to enable UNIDO to meet the growing demand for its services and as a programmable resource base for the development and implementation of its mandated priorities.

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5. In this context it is also worth mentioning that the relatively positive trend of contributions to IDF and third-party trust funds was not able to counterbalance the sharp decrease of United Nations Development Programme (UNDP) resources available to finance UNIDO technical cooperation activities in the field. The changing role and programmatic priorities of UNDP would seem to warrant increases in direct contributions to UNIDO so that assistance to industrial development, as a key factor of a balanced and sustainable development process, is assured in accordance with the mandate and priorities set for the Organization.

6. In line with repeated policy-making organ mandates (e.g. General Conference resolution GC.5/Res.8), the Secretariat will continue its efforts to achieve the targeted funding level of $50 million, with special attention being devoted to obtaining a larger portion of announced pledges as well as to increasing the resources available under the general-purpose convertible segment of the Fund. Efforts will also continue to obtain umbrella contributions aimed at specific programme priorities. Such contributions provide the Organization with flexible and programmable resources that can be used effectively in the development and implementation of UNIDO programmes that address the priorities set for the Organization by its Member States.

7. In the Yaoundé Declaration (GC.5/Res.20) Member States committed themselves to renewing their political and financial support to the revitalized UNIDO. Achievement of the targeted IDF funding level will only be possible if those Member States that are in a position to do so now demonstrate that commitment by providing additional resources to support the reform process, as also called for in the Yaoundé Declaration.

II. PROGRAMMING THRUST, 1995 AND 1996

A. Substantive programming lines

(i) The five development objectives

8. The broad framework for programming extrabudgetary resources under IDF and third-party trust funds will be the five development objectives of the new UNIDO:

- Industrial and technological growth and competitiveness
- Development of human resources for industry
- Equitable development through industrial development
- Environmentally sustainable industrial development
- International cooperation in industrial investment and technology.

(ii) IDF programming guidelines

9. Within the context of the five development objectives, the focus will be on selected themes that will maintain continuity and consistency with present IDF-related policies and priorities.

10. Programmes and projects will be based on the following programming guidelines: the main beneficiary will be small and medium enterprises; local capability will be given preference over direct support; direct support, if provided at the enterprise level, will have a strong demonstration component and will be provided through national industrial support institutions.

11. The overall objective of the IDF programme for 1995 and 1996 will be to build capacity for the development, transfer and absorption of technology, to develop human resources for industry, and information development and exchange. Within that context, the following priority programmes will be promoted:

(a) Small and medium enterprises (SMEs): The UNIDO strategy will aim at contributing to the creation of an enabling environment for SMEs, and will focus on dynamic, growth-oriented and competitive SME sectors according to the respective recipient countries' policies. Integrated programmes, consisting of packages of services, will be developed covering interrelated services for capacity building in improving product and process technologies, upgrading technical and managerial skills, organizing appropriate financing systems and in developing links between national and international marketing systems and sources of supply.

(b) Human resource development: Services in this field will fall into distinct yet closely interrelated sets of activities for supporting the development and review of policy, strategies and plans for industrial human resource development; carrying out industrial skills assessments; strengthening training capacities and capabilities at the institutional level; and developing and promoting industrial training capacities in selected fields. Human resource development activities will be primarily carried out at the recipient country level.

(c) Environmentally sustainable industrial development: In addition to the conventional pollution abatement programmes, the main focus of UNIDO activities in the coming years will be given to the cleaner production subprogramme of the UNIDO environment programme. Major thrust areas for capacity building have been identified as: enhanced national capacities to incorporate environmental considerations into industrial policies and strategies; and awareness building in clean technology and the application of clean technology.

(d) Industrial investment and technology cooperation: Under this programme, several forms of industrial cooperation services will be provided, including: promotion of foreign direct investment; international subcontracting; twinning and/or networking of industrial research institutes, national quality and standardization centres; setting up or participating in joint research and development programmes, linking chambers of commerce or associations of industrialists; and promoting industrial cooperation between countries in regional and subregional groupings as well as at the interregional level by fostering economic cooperation among developing countries.

(e) Information development and exchange: Both as independent programmes or projects or as components of newly developed activities, UNIDO will award priority to the provision of services contributing to the strengthening of existing information nuclei, the networking of information centres at the regional and subregional levels and the development of analytical capabilities to enable intelligent processing of the information

12. With the limited resources available under IDF, the impact of activities under the above priority areas will be limited unless the programmes are well focused and closely coordinated with those of other cooperation agencies, both multilateral and bilateral. Considerable attention will thus be devoted to promoting coordination, complementarity and synergies at the programmatic and conceptual levels of the overall programmes as well as to the level of specific projects and individual countries. Furthermore, the Organization's priority programmes will be regularly updated and consolidated in light of the experience and related activities carried out by other technical cooperation actors, the changing demand of the recipients and UNIDO's own capacity.

(iii) Mobilization of additional financial resources

13. The basic philosophy of IDF as a means for mobilizing additional financial resources for developing countries will continue to apply. Focus will thus be awarded to activities that may have a multiplier effect and to utilizing IDF resources as a means of mobilizing other multilateral and bilateral sources, be it grant aid, investment resources or loans as well as domestic resources.

14. The limited general-purpose resources will be utilized for preparatory assistance projects as seed money for the development of large-scale activities that have good prospects of obtaining funding for the follow-up phase. Complementarity with any umbrella contribution for preparatory assistance projects will be ensured.

(iv) The programme approach

15. At present, UNIDO is at the vanguard within the United Nations system in the elaboration of the programme approach concept into a specific operational approach. Progress has been primarily achieved through IDF-funded sectoral programmes such as the leather programme in east African countries, cross-sectoral programmes such as those relating to subcontracting and modernization of the capital goods sector in Latin America and thematic programmes such as environment and women.

16. Two specific modalities will be followed in applying the programme approach:

(a) Integrated programmes that are based on extensive analysis of a subsector carried out together with the Government and industry concerned. Such programmes consist of an integrated package of technical cooperation projects, investment promotion, information services and policy advice to be provided. The implementation of integrated programmes may entail intensive cooperation with one or more other United Nations agencies;

(b) Thematic programmes consisting of a series of projects for various countries or regions on selected thematic priority areas. They will be developed to facilitate implementation of programme priorities as well as to increase cost-effectiveness through in-house teamwork, by permitting teams to deal with concepts and series of projects rather than individual projects.

17. While the programme approach will continue to be actively pursued by the reformed UNIDO to enhance impact and cost-effectiveness of its activities and to facilitate teamwork, securing of

Provision of adequate resources, coordination and a timely response by donors will be preconditions for the success of this innovative approach.

B. Management and procedures

(i) Quality management

18. At the request of the informal group of major IDF donors, the Secretariat presented the basic principles of the quality system at their meeting in November 1993. The progress made in the establishment of a quality system for UNIDO technical cooperation is described in document IDB.12/8.

19. The principles guiding the provision of technical services are contained in the UNIDO Constitution and in several decisions taken by its policy-making organs concerning its activities as a whole. UNIDO, as a service organization, recognizes that developing countries (their Governments, institutions and enterprises) are responsible for their own development process and external assistance can never become a substitute for their own efforts. The developing countries are therefore responsible for the management of the identification, formulation and implementation of their own development programmes.

20. Towards this end, UNIDO is responsible for the provision of specific technical services to assist in the identification, formulation and/or implementation of those programmes, so as to ensure the sustained capacity-building process of the recipient countries. Impact is measured through the ability of the direct beneficiaries to improve the situation of the target groups on a sustained basis.

21. It is UNIDO policy to ensure that its technical support services meet the quality standards described in document GC.4/28 and endorsed by the General Conference in decision GC.4/Dec.11: relevance, cost-effectiveness and sustainability. For this purpose, project cycle management/objectives-oriented project planning methodologies will be used in line with General Conference decision GC.4/Dec.11. A participatory approach with the recipient developing countries will be pursued. The objectives of this policy are the satisfaction of the recipients of technical cooperation and the target beneficiaries in the developing country as well as of the donor countries and institutions.

22. The application of UNIDO's quality system particularly to the identification and formulation process will ensure that its technical services meet the needs of recipient institutions whether at the national, subsectoral, local or thematic level. This will be ensured through either supporting the analysis of an existing problem situation; the joint formulation of institutions' development programmes and/or the provision of efficient and effective services to implement the programmes.

(ii) Uniform procedures for all sources of funds

23. In resolution GC.5/Res.8, the General Conference requested the Director-General to prepare comprehensive policy guidelines for all projects financed from funds administered by UNIDO. A report on the procedures relating to UNIDO-administered funds is provided in document PBC.10/11-IDB.13/9. All activities under IDF and third-party trust fund projects will have a clearly defined developmental impact. Furthermore, UNIDO

services in terms of their relevance to both the overall needs of recipient countries and the special needs of different groups of beneficiaries, as well as to their cost and operational effectiveness and sustainability. It is also important to stress that the Secretariat will pursue, within the framework of each source of funds, coherent objectives and priorities.

24. The new uniform service management process will strive to ensure interrelationships and complementarity of UNIDO services and will promote cost-effective programming based on teamwork. The guiding principles of the service management process are:

(a) Coherence, focus and prioritization: All services will be designed and delivered within a coherent UNIDO programming framework, in some cases a full-fledged UNIDO country support strategy. The framework will be determined, inter alia, through policy-making organ priorities, development objectives and subsectoral and thematic service frameworks. Requests that would not fall within that framework would not be accepted;

(b) Decentralization of responsibility: The service initiator will play a leading role from beginning to end of the process. The quality function will be decentralized: line managers and team leaders will be fully responsible for meeting quality criteria;

(c) Transparency: Requests will be circulated in a standard form and all stages of the process will be documented. Focus will also be placed on teamwork and monitoring at the country level;

(d) Involvement of the recipient of technical cooperation at all stages of the service management process;

(e) Comprehensiveness: The service management process will cover services under all sources of UNIDO-administered funds.

(iii) Resource mobilization

25. As mentioned in chapter I above, the Secretariat will be faced with great challenges in ensuring that an adequate extrabudgetary resource base is provided to enable the Organization to translate its new mandates and priorities into concrete action for the benefit of the recipient countries.

26. Within the context of IDF and third-party trust funds, UNIDO will focus its funds mobilization efforts on donor Governments and the United Nations system. With respect to Governments, UNIDO will endeavour to increase and diversify its donor base by targeting new and potential donors, including countries in transition, and the more advanced of the developing countries. Concerning traditional major IDF donors, new sources of funds will be targeted in addition to those generally devoted to multilateral cooperation, such as those earmarked for environment, women or support to economies in transition. Untied programme contributions or "umbrella contributions" to priority programmes will be promoted on a priority basis in line with recent policy-making organ mandates. In addition to providing UNIDO with the means to translate priorities into operational activities, this type of programming modality has several advantages. The time taken to secure financing can be reduced considerably, and the impact of assistance can be enhanced if the Organization is in a position to respond promptly to identified needs. Programme contributions would also assist the Organization to move away from a project-by-project approach and to provide an effective and coordinated response to the problems identified under programme priority areas. The activities undertaken through this programming modality can also enhance multi-disciplinary team work as well as provide a frame for thematic reporting and evaluation.

27. Concerning cooperation within the United Nations system, the new multilateral framework calls for enhanced interagency coordination and complementarity in the provision of services based on the respective areas of competence and expertise of each agency. The clear-cut cooperation policy of UNIDO is aimed at joint programming and funds mobilization for integrated programmes as well as at financing of certain projects by other agencies to the extent of their funding capacity. In this context, priority will continue to be awarded to the special funds for environment programmes and to a closer dialogue for sustainable assistance to refugees and displaced populations under the guidance and coordination of the United Nations High Commissioner for Refugees.

III. ACTION REQUIRED OF THE COMMITTEE

28. The Committee may wish to consider recommending to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

(a) Recalls the Yaoundé Declaration (GC.5/Res.20), as well as resolution GC.5/Res.8 on the Industrial Development Fund;

(b) Takes note of the report of the Director-General contained in document IDB.13/4-PBC.10/5;

(c) Approves the programming thrust for 1995 and 1996 proposed in chapter II of document IDB.13/4-PBC.10/5;

(d) Decides to delegate authority to the Director-General to approve projects for financing under the Fund in 1995 and 1996 in accordance with the priority areas of the draft medium-term plan, 1994-1999 (IDB.10/5-PBC.8/10);

(e) In reiterating General Conference resolution GC.5/Res.8 encourages Member States:

(i) To increase their IDF pledges to ensure that the desirable annual funding level of $50 million be reached as soon as possible;

(ii) In order to strengthen the role of IDF as a programming mechanism allowing programming flexibility and in line with financial rule 106.11, to provide part of their contributions to the general-purpose convertible segment of the Fund so that a minimum annual level of $10 million may be achieved as soon as possible;

(iii) To consider providing umbrella contributions for financing preparatory assistance activities of large-scale projects and programmes and/or as freely programmable contributions towards selected medium-term programme frameworks."